

MILITARY PROCUREMENT

REPORT

OF THE

SELECT COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

PARTICIPATION OF SMALL BUSINESS IN
MILITARY PROCUREMENT



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REPORT

SELECT COMMITTEE ON SMALL BUSINESS

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Mr. MOODY, from the Select Committee on Small Business, submitted the following

REPORT

INTRODUCTION

Small business thrives in a free economy. Statistics show that small concerns fare best in open competition. When materials and equipment and all the other necessities of commerce are available to all, large and small alike, small business can more than hold its own. Its size is no handicap. In fact, its size in many instances gives small business certain advantages over large concerns. In normal times, the flexibility and freedom of action inherent in a small, closely knit organization allows it to take advantage of fast-changing conditions and opportunities that might escape larger concerns. The ability of a small concern to concentrate and specialize on one product or one particular type of service also has its advantages.

When a national emergency requires that controls be placed temporarily on the economy, however, many of these advantages are lost. When materials become scarce and have to be apportioned, small business suffers. When equipment such as machine tools become critical items, again small business suffers. Then the size of the concern becomes a handicap. The allocation of materials works a hardship particularly on small, growing businesses. It stifles their growth and restricts their freedom of action. Shortages of materials such as aluminum and copper, work a special hardship on small, single-line producers of civilian goods. And the lack of one machine tool might shut down a small concern, whereas a larger manufacturer can often jerry-rig around a gap in its production line.

One of the leading proper concerns of Government, therefore, must be the protection of the health of small business. In the first 2 years after Pearl Harbor 16 percent of America's small businesses failed. The impact of the defense effort on small business was not recognized in World War II until an important segment of the small-business community had been stamped out.

The Senate Select Committee on Small Business became operational just a few short weeks before the outbreak of the Korean war. When that event occurred, your committee resolved immediately to do everything in its power to prevent the recurrence of the World War II experience of small business. The first several months of the committee's existence were devoted to helping small business convert from a peacetime economy to one geared to the mobilization effort. There were then some 4,000,000 small businesses in the country, 300,000 of them manufacturing concerns. The latter were especially sensitive to the cut-backs in the production of civilian goods. Many of them were engaged exclusively in the production of goods requiring aluminum and other metals which had to be taken for the manufacture of airplanes, tanks, and guns.

It was apparent to your committee that one of its first objectives should be to encourage the participation of small business in military procurement. It was obvious that the new emergency brought on by Korea would necessitate greatly increased expenditures by the military and that the defense agencies would consequently need to multiply their sources of supply. Events confirmed the committee's expectations. In the year ending in June 1950 the military departments spent \$5,355,000,000. In the succeeding 12 months they spent \$30,785,000,000.

But in the months following Korea the committee's efforts to foster the participation of small business in military procurement met with mixed results. There were many small businesses, particularly manufacturing concerns, which successfully negotiated the transition from production of civilian goods to defense contracts. There were many others, however, which came to your committee complaining of various difficulties which they were encountering in their attempts to get into defense work. They were finding it difficult to do business with the military. They said that for various reasons they had failed to date in their efforts to get their "foot in the door" for that first contract.

The Department of Defense issued a number of statements during the year following Korea in which it was indicated that the military wanted to encourage the greater participation of small business in military procurement. Of particular significance was the announcement by the Secretary of Defense on April 5, 1951, of a policy which was stated to be designed "to effectuate more positive aid to small business and thereby insure a broader industrial base for subsequent procurement." But statistics issued by the Munitions Board showing the percentage of military prime contracts going to small business were discouraging. While small business received 24.5 percent of the military dollar in prime contracts awarded during the year ending in June 1950, the figure dropped to 20.9 in the next 12 months.

In an effort to determine why small concerns were not participating in military procurement to a greater degree, the Select Committee on Small Business conducted hearings during May 1951. Your committee held joint hearings with the House Small Business Committee during the first 2 weeks of May to hear testimony from representatives of the Department of Defense on the status of its small-business programs. During the succeeding 2 weeks your committee held separate hearings in which spokesmen for small companies told of their difficulties in attempting to obtain defense contracts. A report¹

¹ S. Rept. 469, 82d Cong., 1st. sess.

presented by the committee in June 1951 summarized the testimony and outlined the complaints of the small-business men. The same report set forth a number of recommendations for the improvement of the small-business programs of the Department of Defense.

Close observation of the military small-business programs during the months following issuance of the committee's report disclosed improvement in some areas, but complaints coming to your committee from small-business men indicated continuing difficulties and frustrations confronting the representatives of small concerns attempting to do business with the military. The growing scarcity of a number of basic materials such as steel and aluminum and the slump in sales of civilian products in late 1951 made it increasingly more imperative that small concerns convert to defense production if they were to survive. That the small-business programs of the military were not progressing as the committee had hoped was borne out by Munitions Board statistics. (See table 1.)

TABLE 1.—*Military prime contracts with business firms (purchasing offices in continental United States), July 1950–March 1952*

[Amounts in millions]

Period	Total	Contracts with small firms	
		Amount	Percent of total
Fiscal year 1951.....	30,785	6,436	20.9
July–September 1950.....	3,066	576	18.8
October–December 1950.....	3,708	879	23.7
January–March 1951.....	9,486	2,014	21.2
January.....	4,004	673	16.8
February.....	2,508	556	22.2
March.....	2,974	785	26.4
April–June 1951.....	14,525	2,967	20.4
April.....	2,878	827	28.7
May.....	3,730	782	21.0
June.....	7,917	1,358	17.1
Fiscal year 1952 to date.....	23,985	4,417	18.4
July–September 1951.....	6,960	1,285	18.5
July.....	2,946	472	16.0
August.....	2,180	407	18.7
September.....	1,834	406	22.1
October–December 1951.....	7,557	1,575	20.8
October.....	2,295	523	22.8
November.....	2,074	547	26.4
December.....	3,188	505	15.8
January–March 1952.....	9,468	1,557	16.4
January 1952.....	2,504	517	20.7
February 1952.....	3,961	478	12.1
March 1952.....	3,003	562	18.7
July 1950–March 1952.....	54,770	10,853	19.8

It became apparent in the spring of 1952 that your committee should reexamine the small-business programs of the Department of Defense to determine what steps had been taken to implement not only the committee's recommendations but also the programs announced by the Department of Defense and to ascertain why

small business was not participating to a greater extent in military procurement. At hearings held during the last week in April and the first week in May 1952, the Subcommittee on Mobilization and Procurement of the Senate Small Business Committee heard testimony from representatives of small concerns, officials of some of the country's largest military prime contractors, and spokesmen for the Department of Defense. The hearings were planned with a view to getting first-hand information from the individuals most directly concerned with military procurement and small business; namely, the small-business representatives who were having difficulties, the prime contractors who could best tell of the status of subcontracting activities, and the personnel of the military agencies actually responsible for the implementation of the small-business programs within the military departments. With regard to the latter, the 1952 hearings differed from those of a year ago in that the joint hearings with the House committee in 1951 heard testimony from top officials of the Department of Defense, including the procurement Secretaries of the three military departments. While the testimony of those officials proved informative, it was the feeling of your committee that the small-business operations of the Department of Defense might better be explored in the 1952 hearings by questioning the officials bearing the primary responsibility for the small-business programs within the Department of Defense.

HEARINGS ON MILITARY PROCUREMENT

TESTIMONY OF SMALL MANUFACTURERS

The small-business representatives seeking the assistance of your committee presented a wide variety of complaints and problems. In choosing those to be explored during the course of its hearings, the committee necessarily had to be selective. Not every complaint of every small-business man could be heard. In fact, many of the complaints could be, and were, resolved without recourse to an open hearing. There were many other complaints, however, that did not lend themselves to case-by-case solution. Within this group the committee had to confine itself in the hearings to problems which appeared to be most widespread. These included the general problem of the time and effort required of a small manufacturer seeking defense work, conflicts between Defense Manpower Policy No. 4 and established policies relating to small business, allegations of increasing activity by the military Departments in manufacturing operations normally reserved to private industry, and indications of discrimination and waste in military procurement.

1. General problems in seeking defense contracts

A high percentage of the inquiries coming to your committee from small companies seek guidance in obtaining defense contracts. The sincere and frequently desperate expressions of these correspondents indicate clearly the impact of the mobilization on small business. Frequently the writers state that they must get contracts if they are to survive. Oftentimes they indicate that they have already made conscientious efforts to obtain a contract but have failed. The frustration and chagrin incident to getting that first contract is all too apparent. In many cases the committee is able to be of assistance.

The problem in a great many instances is one of bringing together the manufacturer with a special product or facility and the particular military agency needing the product.

But all too frequently the committee finds itself unable to solve the problem of the small-business man to his satisfaction. The company may be an old, established firm that did outstanding work for the military in World War II, or it may be a relatively new company that commenced operations and thrived in civilian production after World War II. The proven ability of these firms and their failure to obtain defense work suggests the possibility of a basic defect in the small-business programs of the Department of Defense. This problem was outlined to your committee in its 1952 hearings.

Lee W. Ranney, Jr., vice president and director of sales of the Ranney Refrigerator Co., Greenville, Mich., stated that his antecedents founded the company in 1892. The company manufactured ice refrigerators until 1938 when it began to produce electrical refrigerator equipment for sale under the private labels of mail-order houses and large department stores such as Macy's, City Stores, and May's. During World War II the Ranney plant was engaged exclusively in war work, principally for Navy Ordnance. The company received the Navy Ordnance Development Award for its work on the Bofors cannon, antiaircraft guns, and similar items.

The company normally employs about 285 people. Today there are only 60 working in the plant. The company's civilian business hit a sharp decline in mid-1951. Heavy inventories of refrigerators in its customers' warehouses forced cut-backs in orders and production. In August 1951 Ranney's customers advised the company that they could not give Ranney any assurance of new orders for at least 6 months. Since that time Ranney has been making diligent efforts to obtain defense work in order to keep its plant in operation. In the year ending July 1951 the company did 4.2 million dollars' worth of business with a cost of sales amounting to only \$10,000. Since that time the company has spent \$24,000 in an attempt to get new business but has grossed less than \$450,000.

The company's efforts to obtain military contracts for refrigerators or other items that it can manufacture have been exhaustive. Its representatives have traveled to all of the major procurement centers from the east coast to the Midwest, discussing its facilities and manufacturing possibilities with procurement personnel of all of the military agencies. It has prepared brochures and sent them to major prime contractors all over the country and has followed every promising lead in an effort to obtain defense contracts. The net effect of its efforts has been one contract for the manufacture of 1,482 refrigerators for the Chicago Quartermaster. The contract was obtained through the formal, advertised-bid procedure and was worth \$171,000.

It was apparent to the committee that Mr. Ranney and his company were not novices in the field of military procurement. It was shown that during World War II the company had handled several important contracts with an average value of \$1.4 million. By contrast, Raymond Jones, treasurer of the Replac Corp. of West Virginia, stated that his company was formed in 1951. Its plant is located at Neola, W. Va., and is the only manufacturing plant in the two counties surrounding Neola. The company specializes in the manufacture of plastic laminates. It has employed as many as

68 people in the manufacture of such items as laminate horses for amusement rides, car and truck fenders and body panels for automotive equipment. The company currently employs 24 people.

Mr. Jones stated that he had personally visited every major procurement center that could possibly be interested in his company's products. He stated that his appearance before the committee marked "my twenty-second straight week in Washington" and that between Washington trips he had traveled from coast to coast looking for work. He said he had spent \$20,000 in the past 4 months in his travels and had accomplished nothing—

except that I have placed our name on a lot of bid lists, but have not received one opportunity to bid.

Mr. Jones said that he had also exhausted the major prime contractors in an attempt to obtain some subcontracts on military items. He commented:

We have bid on approximately \$2½ million worth of aircraft work, but they haven't even acknowledged to us how we stood.

The testimony of Messrs. Ranney and Jones on their experiences in attempting to obtain military contracts paralleled the accounts of numerous other small manufacturers who had come to your committee. It was apparent that in spite of the most diligent effort and adherence to the prescribed methods of getting into defense production, small manufacturers were still experiencing serious difficulty.

2. Defense Manpower Policy No. 4

On February 8, 1952, the Director of the Office of Defense Mobilization issued Defense Manpower Policy No. 4. The objective of the policy was to place contracts in areas of current or imminent labor surplus. The objectives of the policy were good and necessary, but its implementation raised a number of problems. The first was the delay in the issuance of implementing regulations. Your committee held separate hearings on March 20 to determine the status of the policy. It was later on that day and on the following day that implementing regulations finally went forth from the Munitions Board and the military departments.

Variance in the regulations issued by the three military agencies led to some misunderstanding and disappointment. Mr. Ranney testified that he had read a newspaper article to the effect that the new policy would allow the military to set aside portions of large procurements for negotiation in surplus labor areas. Greenville, Mich., had been classified as a surplus labor area under the new policy. So, when Mr. Ranney received an invitation from the Chicago Quartermaster to bid on 4,900 refrigerators, he called the office of the Quartermaster at Chicago on April 11 to request that a portion of the procurement be set aside for negotiation in surplus labor areas. He was advised that the Chicago Quartermaster office had not received any authority to use set-asides under DMP-4, although the Navy had such authority and had already used it to implement the policy. Army spokesmen appearing before the committee acknowledged the fact that the use of set-asides had not been authorized within the Department of the Army under DMP-4 but stated that the matter of authorizing their use was "being discussed."

Raymond Jones stated that he explored the possibilities of DMP-4 in his attempts to get defense contracts for his company. He spent

nearly 3 months attempting to establish the qualifications of the Neola, W. Va., area for relief under DMP-4. He finally succeeded but only after a series of frustrating conferences and much traveling about the country. He was advised on the one hand that he could not receive any consideration for a contract until his area was declared labor surplus. On the other hand the people administering the program told him that there was no point in processing the area for DMP-4 consideration unless his company and others in the area could be reasonably certain of obtaining contracts under the policy.

A difficult aspect of DMP-4 was its conflict with small business policies and objectives previously enunciated both by Congress and by the defense agencies. If executed literally, some of the features of DMP-4 operated to the direct detriment of some small businesses. This was clearly demonstrated in the testimony of John T. Dunne, secretary and treasurer of Telemark, Inc., manufacturers of electronics at Stamford, Conn. Mr. Dunne stated that his company had been negotiating with the Navy Bureau of Aeronautics for the manufacture of electrical parts on a classified item. Negotiations reached the point where the Navy asked if Telemark would be willing to fill quarterly Navy requirements for the item through 1954. On April 1, 1952, representatives of Telemark came to Washington for what they believed would be final negotiations on the contract. They were then informed that under DMP-4 the Navy would have to offer an unnamed competitor in New York City an opportunity to meet Telemark's low bid. The competitor was later determined to be the Emerson Radio & Phonograph Corp., a large manufacturer of electronics.

Mr. Dunne pointed out that although New York City had been declared a labor-surplus area, there was in fact no surplus of electronics workers. According to Mr. Dunne, his company had been advertising without success for additional help in the large metropolitan daily newspapers in New York City. He noted also that his company had been negotiating for this particular Navy contract since December 20, 1951, and that negotiations made it so evident that Telemark would get the award that his company had ignored other contract opportunities and had in fact arranged its facilities to begin production in the immediate future. He said that loss of the contract would entail the release of most of the company's 55 employees and a virtual shutdown of the plant until other work could be located.

As of the date of his appearance before the committee, Mr. Dunne did not know whether his company would win or lose the contract. Representatives of the Navy Bureau of Aeronautics stated that they recognized the conflicts between DMP-4 and previously announced small-business policies and that all cases involving such conflicts were being referred to the Bureau of Naval Material. They stated that the Telemark case had already been referred to that office. Your committee was greatly relieved to learn later that the conflict in the Telemark case had been resolved in its favor, and in June the Director of the Office of Defense Mobilization announced that large firms in distressed manpower areas would no longer be given preference on defense contracts over small concerns outside the distressed areas.

3. Industrial activity of military departments

Your committee was greatly disturbed by reports received from small-business men who alleged that the military departments were becoming increasingly active in operations normally performed by private industry. It was stated that this activity was taking place in several areas and was assuming large proportions, so much so that many small industries, normally dependent on military contracts for the performance of such work, were hard-pressed to find enough civilian business to keep their plants in operation.

One such complaint related to the erection of a jewel-bearing plant in North Dakota by the Army Ordnance Corps. It was stated that the jewel-bearing industry in New England, particularly in the Rhode Island area, would suffer because the skilled technicians and artisans necessary to the operation of such a plant would have to transfer to North Dakota. In addition it was stated that the small companies making up the jewel-bearing industry in the New England area needed work. The erection of a new facility by the Ordnance Corps would deprive the industry of sorely needed defense contracts. Investigation by members of the committee staff disclosed that the North Dakota operation was to be a pilot plant employing limited personnel and that the work to be done there was to be of an experimental nature. It was concluded that the operation of the new facility would not in fact have any great impact on the industry in New England.

The committee received similar complaints from representatives of several other industries. Investigation in most cases established good reasons for the entrance of the military agencies into the various operations noted by industry spokesmen. The inquiries usually indicated that the new facilities would have little, if any, effect on small business. One such complaint that persisted, however, related to the erection of plating facilities at various military installations. Independent platers complained to your committee that they normally did a considerable volume of business either directly with the military agencies or with military prime contractors. Metal finishing was an important operation on many defense items. The lack of plating materials and restrictions on the use of such materials on products for civilian use made it important that the members of the plating industry be allowed to participate fully in military procurement. Your committee was therefore concerned at the persistent reports regarding the installation of plating facilities by military agencies. These reports alleged either that the military agencies themselves were undertaking plating operations normally performed by the independent platers or that they were requiring some of the major military prime contractors to install plating facilities in their plants to finish military items rather than to subcontract the metal-plating operations as they usually did.

Henry Bock, manager of the Auto City Plating Co., Detroit, stated that his company did over \$5 million worth of plating for the military agencies in World War II but that military requirements have not been very substantial since Korea. Mr. Bock said that his company specializes in porous chrome plating, a process which puts an extremely hard finish on metals. He said his company did a great deal of porous chrome plating on airplane engine cylinders for the Air Force in World War II but that this work came to an abrupt end in May 1945. Due to shortages of plating materials such as copper and nickel and the

restrictions on the use of such materials in civilian production, Mr. Bock's company has had to curtail its production substantially. Sales are between 40 and 50 percent below a year ago, and first quarter 1952 profits were 80 percent below those of the comparable 1951 period.

According to Mr. Bock his company received an inquiry from the Air Force early this year in which it was stated that the Air Force wanted to have 12,000 cylinders chrome plated in the next 6 months. When Mr. Bock went to Wright Field to obtain more information on the matter he was advised that this was a temporary arrangement to enable the Air Force to complete a modernization program in its own plating facilities at Kelly Field, San Antonio, Tex. It was learned that the modernization program would cost approximately \$650,000. According to Mr. Bock, this amount would be sufficient to equip several modern plating shops. He protested this action by the Air Force on the ground that it was depriving him and other independent platers of needed work and was being built at the taxpayer's expense. He was of the opinion that such work belonged in the hands of proven suppliers within the metal plating industry.

Air Force spokesmen advised the committee that an extensive survey had been undertaken by the Air Force prior to the decision to expand the Kelly Field plating facilities. They pointed out that Kelly Field was the principal Air Force overhaul base and that the plating work done there was usually of an emergency or job-shop type involving a number of completely different items. They stated in addition that the quantity of items varied considerably and that the workload was spasmodic. In the opinion of the Air Force representatives, it would be extremely inefficient and uneconomical to let such work for contract. They pointed out also that even with the expanded Kelly Field plating facilities it would still be necessary to place a considerable portion of plating requirements with private contractors. They estimated that this portion of the work would approximate 50 percent of all Kelly Field plating requirements.

4. Allegations of waste and favoritism in military procurement

Benjamin F. W. Heyer, president of the Heyer Products Co. of Belleville, N. J., stated that his company was founded in 1923. It manufactures automotive-test equipment and electrical instruments. Since its founding the company has produced over \$50,000,000 worth of products for sale under its own name and under the names of such companies as Ford Motor, Exide, Willard, B. F. Goodrich, and Auto-Lite. In World War II the company completed \$5,200,000 in contracts for the Army and Navy. Mr. Heyer served for 3 years during World War II as a colonel in the Air Force. He was first stationed at Wright-Patterson Air Force Base where he was engaged in maintenance and procurement and then served with the Eighth Air Force overseas where he was Chief of Maintenance of several warehouse depots where airplanes were overhauled.

Mr. Heyer stated that his company occupies a plant approximately 70,000 square feet in size. The company normally employs 300 people but at the present time this number has been reduced to 150. Mr. Heyer attributed the current reduced production of his company to the Korean situation, material shortages, and Government-procurement policies. He stated that a number of these policies favor large companies. By way of illustration he noted that a large competitor,

located approximately 10 miles from the Heyer plant, is doing three to four times its normal civilian business and that the large company recently tried to purchase the Heyer plant. In the meantime, Mr. Heyer has been spending literally thousands of dollars in attempts to get contracts that would keep his company in business. He said that the expense of traveling to procurement centers, preparing bids, and other expenses incident to obtaining Government contracts has actually amounted to 14 percent of the value of all contracts received by his company since Korea.

The specific complaints made by Mr. Heyer relative to military procurement policies and procedures were similar to those mentioned by numerous other small manufacturers who had come to your committee for assistance.

Mr. Heyer's first complaint related to the use of technical evaluators. He said that the military agencies were throwing out the bids of qualified suppliers for inconsequential and insufficient reasons cited by technical evaluators. According to Mr. Heyer, a technical evaluator would cite such a reason to a buyer and thus eliminate the bidder from further consideration on a contract. To illustrate his point Mr. Heyer presented to the committee the following tables showing six Army Ordnance procurements on which Heyer claimed to be the lowest qualified bidder. The Heyer bids on these items totaled \$845,276.90. The company received only \$238,832.40 of the contracts. The balance went to others who were as high as seventh on the bid list. The added price paid on these contracts was \$271,105.10 over the amounts bid by Heyer. On several of these bids Heyer was rejected on technical evaluation.

EXHIBIT I

SCHEDULE A.—Analysis of ordnance contracts on which Heyer was low bidder or low qualified bidder

Invitation No.	Heyer bid						
	Item No.	Description	Quantity	Closing date	Award date	Position	Bid total
DA-20-089-51-1038 FS	2 (3)	Low voltage circuit tester	3,000	Nov. 5, 1950	Feb. 6, 1951	Second	\$134,100.00
Do	3 (5)	Bench, test, universal generators	325	do	do	Low	290,875.00
Do	7 (14)	Tester, motor driven distributor	95	do	do	Second	16,720.00
DA-20-089-ORD-51-2520 FS	1 (41)	Growler, armature testing	550	Jan. 24, 1951	March 1951	Low	6,869.50
DA-20-089-51-2569 FS	8 (45)	Tester, motor driven distributor	20	Jan. 31, 1951	Feb. 2, 1951	Second	3,380.00
DA-20-089-ORD-51-3527 FS	1 (1)	Light, timing	10,000	June 23, 1951		Low	154,500.00
See schedule B							238,832.40
							845,276.90

Invitation No.	Successful bidder			Extra cost to tax-payer	Reason given
	Company	Position	Award total		
DA-20-089-51-1038 FS	Weidenhoff, J	Seventh	\$250,830.00	\$116,730.00	Engineering determination. 100 Heyer—unwilling to award entire quantity to new source.
Do	Heyer	Low	89,500.00		
Do	Weidenhoff, J	Third	252,945.00	51,570.00	225 Weidenhoff, J. Engineering determination. Do.
Do	do	Sixth	27,819.90	11,099.90	
DA-20-089-ORD-51-2520 FS	Auto-Test	Second	8,772.50	1,903.00	Item withdrawn because of objections of Heyer and other suppliers to short time allowed (5 days) for manufacture of sample. If bid had not been withdrawn, contract would have probably gone to Allen since their unit was specified in invitation. However, this was not a standard Allen unit and samples or catalog sheets were not available to any bidders for examination.
DA-20-089-51-2569 FS	Weidenhoff, J	Fifth	6,182.20	2,802.20	
DA-20-089-ORD-51-3527 FS	Allen (probable)	do	1241,500.00	87,000.00	
See schedule B	Heyer	Low	238,832.40		
			1,116,382.00	271,105.10	

¹ No award resulted from this invitation.

SCHEDULE B.—Analysis of ordnance contracts awarded Heyer as a result of advertised bids

Invitation No.	Contract No.	Item No.	Description	Quantity	Closing date	Award date	Heyer bid	
							Position	Bid total
DA-20-089-ORD-51-1038FS	DA-20-089-ORD-12183FS	4 (6)	Charger, battery	435	Nov. 6, 1950	Feb. 3, 1951	Low	\$9,983.25
DA-20-089-ORD-51-1038FS	DA-20-089-ORD-12183FS	6 (13)	Tester, ignition circuit	435	do	do	do	21,641.25
DA-20-089-ORD-51-1038FS	DA-20-089-ORD-12183FS	3 (5)	Bench, test, universal generators	1 100	do	do	do	89,500.00
DA-20-089-ORD-51-1141	DA-20-089-ORD-9565FS	1 (21)	Tachometer, engine electric	1,238	Nov. 8, 1950	Dec. 27, 1950	do	31,940.40
DA-20-089-ORD-51-722	DA-20-089-ORD-14568FS	2 (5)	Tester, electric automotive analyzer	120	Dec. 7, 1950	Apr. 5, 1951	do	21,840.00
DA-20-089-ORD-51-2569FS	DA-20-089-ORD-14199FS	3 (25)	Charger, battery	400	Jan. 31, 1951	Mar. 23, 1951	do	2,670.00
DA-20-089-ORD-51-2569FS	DA-20-089-ORD-14199FS	7 (44)	Tester, ignition circuit	965	do	do	do	45,837.50
DA-20-089-ORD-51-3531FS	DA-20-089-ORD-23471FS	1 (10)	Growler, armature testing	1,000	June 23, 1951	June 30, 1951	Second	15,420.00
			Total					238,832.40

¹ 225 awarded Weidenhoff.

Mr. Heyer referred particularly to an invitation to bid on 3,000 low voltage circuit testers. His company bid \$134,100. The Heyer bid was rejected on technical evaluation and the contract went to the Weidenhoff Co. of Chicago at \$250,830. Mr. Heyer stated that after considerable effort he was able to learn the nature of the technical evaluation that had eliminated his bid. One of the objections was that the Heyer drawing of the item showed a panel five-eighths of an inch out of line. Mr. Heyer pointed out that his company's written specification conformed with the Ordnance requirement and that a drafting error on the drawing accounted for the deviation, but that Ordnance had not considered telephoning Heyer to resolve this simple deficiency. The technical evaluator also said that in his opinion the insulation specified by Heyer for use in the unit was not good. Mr. Heyer noted that his company had made 52,000 of these units, a relatively simple item, for the military during World War II and that it had manufactured literally tens of thousands of them for commercial use.

The representatives of Army Ordnance who appeared before your committee to explain the function of the technical evaluators, and in particular to explain why the Heyer bids had been rejected, did not give convincing explanations. They stated simply that if they were to call in the Heyer representatives to discuss minor deviations and technical matters they would have to give other bidders the same privilege. The chairman of the subcommittee commented that such a procedure would appear to be amply justified where thousands of dollars of the taxpayers' money were involved. Nor were the Ordnance representatives convincing when they stated that the opinions of the technical evaluators were merely advisory and not binding on the buyers. It was clear that unless they were binding then there was no reason whatsoever for technical evaluation.

Mr. Heyer's second major objection to procurement procedures related to the practice of inviting bids on brand names "or equal." He stated that oftentimes a procurement agency would not send out specifications or drawings on an item to be procured but would instead ask for bids on "ABC Model 123 or equal." Mr. Heyer was of the opinion that the practice placed an almost insurmountable burden on prospective bidders in many instances because of difficulty in obtaining access to the "ABC Model 123." He noted also that the ABC Co. would have a distinct advantage over other bidders inasmuch as it had probably been producing the unit in the past and therefore knew its costs. In addition, ABC would not have to worry about technical evaluation because as a practical matter its product was the specification.

Mr. Heyer commented in addition that the "or equal" method of procurement was often used to purchase standard commercial items. He suggested that a fairer way to procure such items would be to specify several brand names, the test being the job to be done by the unit.

In connection with the procurement of standard commercial items Mr. Heyer also noted that such procurements were frequently processed on a negotiated basis. He stated that in his opinion there was no need for negotiation in the procurement of such items and that the only result of the practice was to conceal the contract price from other bidders.

In documenting his complaint on this point Mr. Heyer referred to a request for proposal received by this company from the Air Force to bid on a "Sun model UDT universal motor analyzer, or equal." He pointed out that this was a standard commercial item and that several manufacturers made similar units. He could not understand first, why the procurement was negotiated rather than advertised, and secondly, why more than one manufacturer was not named in the proposal. He stated that his company bid on the item and then was told that it did not meet the specification. When Heyer insisted that they did the Air Force stated that what they wanted was the Sun model UDT-M, a military version of the UDT, and that an error had been made in the proposal. When Heyer asked for literature on the UDT-M he was unable to obtain it and still had not obtained it as of the time of his appearance before the committee.

Mr. Heyer said that his numerous difficulties in procurement led him to the belief that many contracts were going to "favored suppliers" and that many of them appeared to have special influence and to be enjoying special privileges. In order to satisfy himself on this score, Mr. Heyer said, he hired a private detective at Dayton, Ohio, to observe the activities of the representative of the Sun Electrical Corporation, manufacturers of the Sun model UDT. According to Mr. Heyer the detective had observed an Air Force buyer from Wright Field in numerous contacts with the Sun representative. According to the detective, the two were together from 9:00 p. m. until 1:00 a. m. on April 23 at the motel where the Sun representative was staying. They were observed examining the same Sun model UDT item on which the Heyer company was bidding. In addition, according to Mr. Heyer, the detective had recently overheard a telephone conversation between the Air Force buyer and the Sun representative in which the buyer stated that the Sun machine was the best in his opinion but that he had done all he could and "did not want to get into trouble with the general."

In conclusion, Mr. Heyer stated that no award had yet been made on the Sun model UDT-M procurement but that he would not be surprised if the proposal were withdrawn. He stated that this was another objection he had to current procurement practices, namely, the cancellation of proposals and bids without explanation after Heyer and oftentimes many other bidders had gone to considerable expense in preparing bids. He stated it was his experience that too much complaining and persistence on the part of a bidder often prompted the procurement agencies to withdraw requests for proposals and bids, apparently merely to avoid further controversy.

Air Force and Army representatives replying to Mr. Heyer's charges asserted that technical evaluators were necessary in order to insure the qualifications of prospective contractors. They agreed, however, that mistakes of judgment could be made and were made to the detriment of military procurement and small business. They also asserted that the practice of inviting bids and proposals through the "or equal" device was confined as narrowly as possible and said that henceforth more than one manufacturer's product would be specified in such procurements wherever possible. With respect to the use of negotiated procurements they noted that the President's declaration of a national emergency in December 1950 had greatly extended the authority of the military to negotiate contracts in the interest of expediting procurements.

The committee felt that Mr. Heyer's report regarding apparently improper associations between an Air Force buyer and a contractor's representative at Dayton, Ohio, was a most serious matter. A member of the committee staff was therefore assigned to investigate the charge. A preliminary investigation at Dayton verified the information furnished by Mr. Heyer. It was found that the Air Force buyer, a career officer, had in fact visited the Sun representative at the latter's motel and had lunched with him on a number of occasions. In addition it was found that the Sun representative had visited the home of the Air Force officer on at least one occasion and had telephoned him at his home. The investigation failed to establish that the Air Force officer had extended any special privilege to the Sun representative or that the latter had compromised the officer in any way. The officer conceded that his visit to the motel room of the Sun agent might have been "a little irregular" but stated that he had gone there primarily to have his automobile tested preparatory to a vacation trip. He stated that otherwise all of his contacts with the Sun representative were related to his duties as an Air Force buyer.

The associations between the Air Force buyer and the Sun representative outside regular business hours impressed your committee as being highly irregular and subject to censure. It was apparent that even though innocent such associations gave rise to suspicion and rumors and were certainly not in the best interests of the Air Force. The chairman of the subcommittee forwarded a copy of the staff report on the preliminary investigation to Roswell L. Gilpatric, Under Secretary of the Air Force, with the recommendation that steps be taken to prohibit such associations on the part of Air Force personnel and to cancel negotiations with companies whose representatives engaged in activities such as those of the Sun representative. In reply, Mr. Gilpatric advised that regulations to this effect were already promulgated but that steps would be taken to reiterate and enforce them. Mr. Gilpatric also stated in reply to the chairman's request, that he would forward a report on the action taken by the Air Force on the basis of the committee's investigative report.

STATUS OF MILITARY SMALL BUSINESS PROGRAMS

A major purpose of your committee's hearings was to receive reports from the heads of the small-business offices of the military departments. It was apparent from the testimony of the witnesses before the committee and from correspondence received from spokesmen for small concerns that there were serious shortcomings in the small business programs of the military. It was hoped that the testimony of the personnel in charge of the programs would indicate the areas needing attention.

1. Munitions Board

Richard Lennihan, Director of the Office of Small Business, Munitions Board, presented a report which summarized the steps taken by the military departments in implementing the Department of Defense small-business program and the accomplishments of the program to date. He stated that the military departments had appointed 447 small-business specialists to serve in each procurement office. Mr. Lennihan referred to the small-business specialists as "the fundamental key in the efforts of the Munitions Board and the military

departments to achieve the objectives of the Department of Defense small-business program." He stated that the military departments held orientation conferences for all small-business specialists during July, August, and September 1951 to insure that all specialists were thoroughly informed of the small-business program. He added that surveys conducted by members of the Munitions Board staff at 10 procurement activities of the Army, Navy, and Air Force toward the end of 1951 convinced the staff members that the personnel of the procurement offices understood the reason and need for an aggressive Department of Defense small-business program.

In listing the aids to small business inaugurated by the Munitions Board in the past year Mr. Lennihan referred to the Department of Commerce procurement publications. He stated that on September 6, 1951, the Munitions Board directed all military departments to include in the Department of Commerce daily synopsis all unclassified, negotiated, and advertised procurements of \$10,000 or more with certain exceptions. The new policy enlarged the number of procurements included in the synopsis. In addition, the information published in the synopsis was expanded to include data which would be more helpful to small concerns in determining whether they might be able to bid on an item. Munitions Board policy with respect to publication of contract-award information was also revised to provide for the publication by the Department of Commerce of all unclassified, negotiated, and formally advertised contracts in excess of \$25,000, together with a brief description of the commodity or service, quantity, and the name and address of the contractor. Previous policy provided that all contracts over \$250,000 would be listed "exceeds \$250,000" and the quantity was omitted.

Mr. Lennihan stated that in an effort to encourage subcontracting by prime contractors, the three military departments had adopted a uniform policy of recommending disapproval of new facilities for prime contractors where such new facilities were proposed to be obtained with Government assistance, and where the work to be performed with the new facilities could readily be subcontracted. This policy impressed your committee as being a practical step toward enlisting small concerns in defense work at the subcontract level. It was noted that the committee had received several complaints to the effect that the military departments were fostering expansion of large concerns to the detriment of small business but that inquiries by the committee staff had shown most of these complaints to be unfounded.

The Small Defense Plants Administration is now undertaking a survey to determine the location and capacity of the Nation's small firms. Data compiled by SDPA in its survey should prove valuable to the Department of Defense in its program to curb plant expansion in areas where there are idle facilities. Your committee urges close cooperation between the Department of Defense and SDPA in this endeavor.

Mr. Lennihan also referred to the Industry Assistance Clinics held in 15 principal cities during January 1952 under the joint sponsorship of the Armed Forces Regional Councils and NPA field service offices. The purpose of the clinics was to assist firms most seriously affected by cut-backs in copper and aluminum allocations. All firms in the various areas who had received first quarter 1952 allocations of 34 percent or less of their base period use of the critical materials were invited to

attend the clinics. All clinics consisted of a series of individual conferences between military and other Government agency procurement personnel, prime contractor representatives, and representatives of the firms attending. Of the total number of firms invited, 44 percent actually attended, and of those attending 83 percent were found to have facilities which could be utilized in the defense program.

In his presentation Mr. Lennihan dwelt at some length on statistics indicating the extent of participation of small business in military prime contracts since Korea, noting that the Military Departments have awarded over \$10 billion in prime contracts with small business since Korea and that this amount represents 19.9 percent of the nearly \$52 billion in prime contracts let in the same period. By way of explaining why the percentage figure was not higher Mr. Lennihan said:

Out of the millions of items that the military buys, about 600 of the largest items of fighting equipment account for 60 to 65 percent of the total dollar value of hard goods procurement. The aircraft and ordnance programs alone, without electronic components, account for about half of the value of hard goods deliveries. It is obvious that small firms cannot act as final assemblers or prime suppliers for any substantial proportion of these types of items, and that there are many items in other military programs that small firms cannot produce or assemble.

He observed, however, that small concerns participate extensively in the procurement of large military items through subcontracts. He cited NPA figures which showed that during the third quarter of calendar 1951, metalworking firms employing fewer than 500 delivered 43.9 percent of their total shipments on rated defense orders, while for larger firms, the ratio of rated defense orders was only 33.5 percent. According to NPA, the small firms accounted for 22.9 percent of all shipments in the metal-working industries, but they accounted for 27.9 percent of all rated defense shipments of the industries.

Mr. Lennihan also noted the monthly fluctuation in small business participation in military prime contracts. In this connection he said:

The periodic variation in the ratio of military contracts with small business to total contracts in general reflects the types of products put under contract in the respective periods. When the proportion of purchases of heavy goods is high, the small business ratio necessarily is relatively lower.

A clear example of this occurred in December 1951, when a single contract for tanks accounted for a 10 percent difference in the Army small business ratio, and a 5 percent difference in the total for all three departments. Without this tank contract, the Army small business ratio of 14 percent would have been 24 percent, and for the Department of Defense as a whole, the ratio would have been 21 percent rather than 15.8 percent. In January 1952, the Army ratio again increased to 26.2 percent and the total for all departments to 20.7 percent. In February 1952, a very substantial volume of ordnance and aircraft contracts again reduced the small business ratio for all departments to 12.1 percent. This February figure is subject to revision. Ordnance contracts were, in February, about triple their monthly average for this year to date, and February Air Force contracts were also nearly three times the monthly average. However, the cumulative small business ratio remains at 19.9 percent, and it is predicted that in future months the ratio will increase again as it did after the December low point. But there is no denying that the volume of hard goods contracts for the remainder of the year will be such that it will be a real struggle to hold the average in the neighborhood of 20 percent.

2. Army

Harry E. Blythe, Consultant for Small Business, Office of the Under Secretary, Department of the Army, was the principal spokesman for the Army on the status of its small-business program. In

his introductory remarks he referred to the report on military procurement filed by your committee on June 21, 1951,² and particularly the section of the report outlining the difficulties encountered by small-business men in their attempts to obtain contracts. Mr. Blythe said:

The Army could find nothing better on which to work in 1952 than that outline.

He then summarized the progress made by the Army in its efforts to meet the difficulties outlined by your committee.

He noted that the Army had appointed 329 small-business specialists and said that in the first 4 months of fiscal 1952 the specialists had interviewed 55,000 small-business men, added 50,000 of them to bidders' lists, and had furnished guidance to small concerns on over 40,000 individual problems, engineering and technical aid in over 11,000 cases, and priorities and allocations assistance in 18,000 cases. Mr. Blythe furnished these statistics by way of indicating how the Army had met the committee's criticism of a year ago, namely that the overload on buyers did not permit them to talk properly to prospective contractors. He stated that insofar as small-business men were concerned, the buyers had been replaced by the small-business specialists on all matters other than the actual evaluation and award of contracts.

With respect to the matter of bid forms and specifications and the difficulties of small concerns in obtaining them, Mr. Blythe stated that the technical services of the Army were now sending out as many as 150 to 200 bid sets on procurements and that provisions were made in each instance for making available additional sets at convenient locations for concerns not receiving them through the mail.

Your committee had noted in its June 1951 report that delivery schedules were often unreasonable. Mr. Blythe acknowledged that this was true as of a year ago but that now instead of requiring first deliveries within a week of the award of a contract the technical services are now uniformly allowing at least 3 to 4 weeks and are continuing their efforts to extend lead times on production. Likewise, according to Mr. Blythe, bidders are now being allowed a longer time to prepare and submit a bid.

In general your committee was impressed by Mr. Blythe's report on the steps taken by the Army to meet the criticism and to implement the recommendations made by your committee a year ago.

The Army presented its statistics on small business participation in military procurement through the use of charts. Mr. Blythe noted the precipitous drops in the percentage figures for December 1951 and February 1952 and explained in some detail, bearing out the earlier testimony of Mr. Lennihan, that heavy Ordnance purchases of tanks in those months were principally responsible. The committee was aware of the fact that of the three services, Army was consistently high in its figures on small-business participation. It was explained that normally the Army buys considerably more items that are susceptible of manufacture by small business than do the Navy and Air Force. It was also testified that Army buys many common-use

² S. Rept. 469, 82d Cong., 1st sess.

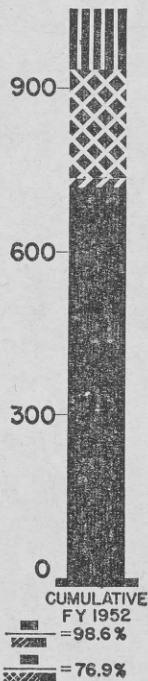
items such as clothing for all three services and that such purchases, largely from small concerns, contribute in large part to the relatively better showing made by the Army in its small-business program.

Statistics on small-business participation in Army procurement for the first 8 months of fiscal 1952 showed that 1,055,000 contracts were let during that period. Of this number 113,800 represented contracts let by other agencies on behalf of the Army. Another 203,400 contracts were deemed not suitable of production by small business and included such items as tanks, heavy-caliber guns, ammunition, etc. There were 737,800 contracts let on items suitable for small business accomplishment. Of this number, small business actually received 723,800, or 98.6 percent. Dollarwise, small business received 70.3 percent of the contracts which it was capable of performing. The accompanying chart depicts the full data presented by the Army on this phase of its operations.

SMALL BUSINESS PARTICIPATION

ALL SIZE PRIME CONTRACTS IN CONTINENTAL UNITED STATES (FISCAL YEAR 1952) (FIRST 8 MONTHS)

THOUSAND
CONTRACTS
1200



NOT REPORTABLE

- INTERDEPARTMENTAL & INTERSERVICE
PURCHASES FROM ARMED SERVICES PETROLEUM AGENCY SUCH AS:
GASOLINE, LUBRICANTS, FUEL OIL AND GASES, ETC.
PURCHASES FROM FEDERAL SUPPLY BUREAU (GSA), POST OFFICE
DEPT, GOVERNMENT PRINTING OFFICE, PRISONS, AND
BLIND INSTITUTIONS, SUCH AS:
OFFICE FURNITURE, FIXTURES, AND SUPPLIES, ENVELOPES,
BROOMS, BRUSHES, ETC.

NOT AVAILABLE TO SMALL BUSINESS

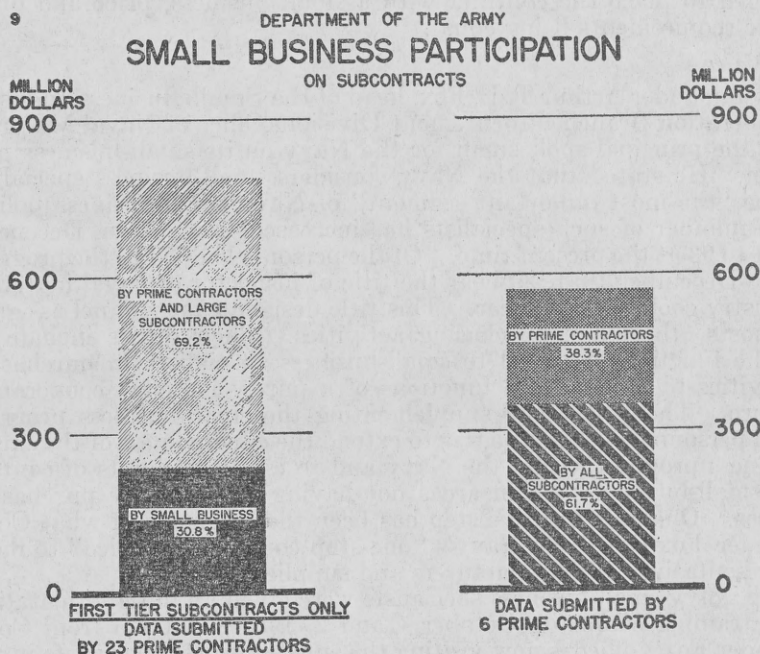
- NOT SUITABLE OF ACCOMPLISHMENT BY SMALL BUSINESS.
CONSISTS OF ITEMS POSITIVELY IDENTIFIED AS NOT SUITABLE
OF ACCOMPLISHMENT BY SMALL BUSINESS SUCH AS:
SIGNAL: CERTAIN COMPLEX RADIO, TELEPHONE, TELEGRAPH,
TELETYPEWRITER, AND RADAR EQUIPMENT AND SPECIAL
PURPOSE VEHICLES.
ORDNANCE: CERTAIN HEAVY CALIBER GUNS AND AMMUNITION,
COMPLEX FIRE CONTROL EQUIPMENT, TANKS, ENGINES,
MOTOR VEHICLES, AND MAJOR TANK ASSEMBLIES.
ENGINEER: HEAVY CONSTRUCTION EQUIPMENT, FLOATING PLANT
SPECIAL PURPOSE VEHICLES, WATER PURIFICATION
EQUIPMENT AND HEAVY DUTY REFRIGERATION SYSTEM
EQUIPMENT.
TRANSPORTATION: LOCOMOTIVES AND RAILWAY TANK CARS.
CHEMICAL: POISON GASES, DANGEROUS CHEMICALS, IMPREGNATING
EQUIPMENT AND SPECIAL PURPOSE VEHICLES.

POSSIBLY AVAILABLE TO SMALL BUSINESS

- AWARDED TO LARGE BUSINESS.
INCLUDES: ITEMS WHICH MAY NOT BE SUITABLE OF ACCOMPLISHMENT
BY SMALL BUSINESS.
ITEMS FOR WHICH NO SMALL BUSINESS IS ENGAGED OR WAS
INTERESTED IN SUBMITTING A BID OR PROPOSAL.
ITEMS FOR WHICH SMALL BUSINESS COMPETED BUT DID NOT
RECEIVE AWARD BECAUSE (1) HIGH PRICE, (2) UNSATISFACTORY
DELIVERY SCHEDULE, (3) INADEQUATE PLANT FACILITIES,
FINANCES, TECHNICAL KNOW-HOW, OR SKILLED LABOR,
(4) PLANT LOCATED IN AREA OF CRITICAL LABOR SHORTAGE
AND (5) REQUIRED EXTENSIVE PLANT CONVERSION OR
EXPANSION.
ITEMS FOR WHICH THERE IS A PROPRIETARY SOURCE
ITEMS WHICH ARE CLASSIFIED AND CONSEQUENTLY INFOR-
MATION IS NOT AVAILABLE AS TO SUSCEPTIBILITY.
AWARDED TO SMALL BUSINESS.
INCLUDES: PRIME CONTRACTS ONLY.
(SUBCONTRACTS AND DIRECT HIRE LABOR NOT INCLUDED)



Mr. Blythe stated that the Army had achieved considerable success in enlisting the interest of its major prime contractors in small-business problems and that many of them were cooperating in Army efforts to encourage small-business participation in Army procurement through subcontracts. He stated that Budget Bureau regulations prohibit the Army from making extensive surveys among its prime contractors to determine the extent of subcontracting but said that several large prime contractors have forwarded data on a voluntary basis to show the extent of their subcontracting operations. For example, a survey of 23 major Army prime contractors reflected that 30.8 percent of their procurement dollar was going to small firms among first-tier subcontractors. A similar survey of six large prime contractors showed that 61.7 percent of their procurement dollar was going to subcontractors, although in this case the prime contractors did not differentiate between large and small firms. The following chart portrays these breakdowns.



In an effort to determine the effectiveness of the military small-business programs at the field level, the committee questioned small-business specialists of all three departments stationed at various procurement centers throughout the country. The committee was impressed with the caliber and apparent qualifications of the Army specialists. They appeared to have a thorough grasp of the problems of small business and an awareness of the importance of their function and role in the small-business program. They demonstrated a first-hand knowledge of current procedures and policies relating to small

business. More important, they showed a will to implement the policies and to encourage wider participation by small business in military procurement.

The questioning of the specialists from the field gave your committee cause for concern in one particular area. It was apparent from the testimony of the Army specialists that their authority is not all that it should be. In the matter of screening procurements and earmarking contracts for small business, for example, it was shown that the recommendation of the specialist is merely advisory. He has no real authority to enforce his recommendation. The Army spokesmen commented generally on the specialist's right to go over the head of a buyer who might disagree with a recommendation and appeal the matter to his commanding officer, but this did not impress your committee as being a particularly effective device. Whether a particular contract is suitable for small business is a matter of simple judgment. Where a small-business specialist so specifies, the buyer should be obliged to place the contract with a small business, price and other basic requirements being equal.

3. Navy

Commander Arthur T. L. Fox, head of the Small Business-Industry Cooperation Branch, Procurement Division, Office of Naval Material, was the principal spokesman for the Navy on its small-business program. He stated that the Navy considers small-business specialists to be "the most important segment" of Navy small-business policy. The number of such specialists has increased from 57 in December 1951 to 93 at the present time. Of the personnel added to the program since December 1951, 29 bear the title of inspector of naval material-industry cooperation officer. This title designates personnel assigned to posts other than purchasing activities. Their duties include all of the functions assigned to small-business specialists in purchasing activities plus additional functions of a purely industry cooperation nature. The purpose of supplementing the small-business program with personnel of this type was to extend the effectiveness of the small-business program within the Navy and to establish points of contact for small-business men in areas not having major Navy purchasing offices. One result of this step has been the extension of what Commander Fox called the Navy's "one-stop counseling service" to more representatives of manufacturers and suppliers.

All Navy small-business specialists were given an initial orientation and training course on October 1 and 2, 1951. A team from Commander Fox's office is now visiting the small-business specialists in the Navy purchasing offices for on-the-spot review of policies, procedures, and results. Your committee was pleased to note that all Navy procurement personnel are receiving instruction in small-business policies. The committee agreed with Commander Fox's assertion that "the extension of the training program to procurement personnel is deemed to be the most effective means of further implementing the small-business program."

Commander Fox described in some detail two of the most productive operations of the small-business specialists; namely, the processing of "tagged procurements" and "tailored procurements." Under "tagged procurements," the small-business specialist reviews every procure-

ment action and determines those suitable of production by small business. The Navy buyer is then required to process such procurements for award to small business. Questioning of the Navy representatives disclosed, however, that the small-business specialist has no power to follow through on such a procurement to see that it actually goes to small business. His recommendation is purely advisory.

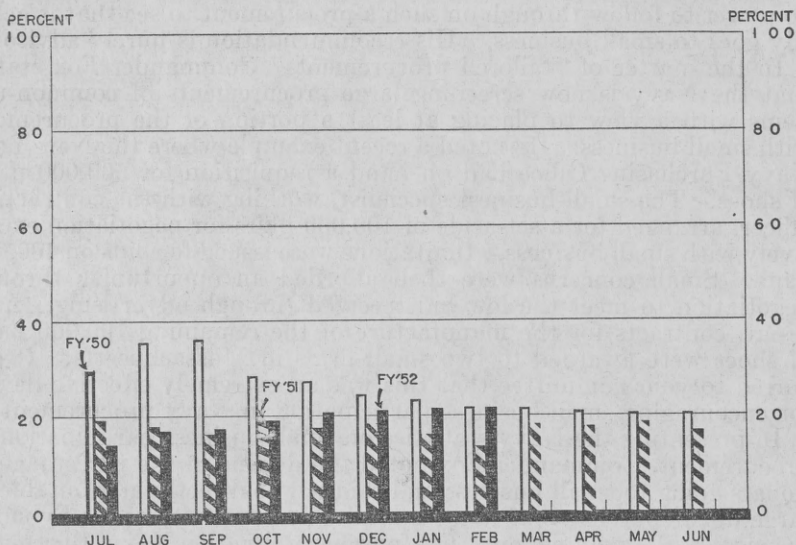
In the matter of "tailored procurements" Commander Fox stated that the Navy is now screening large procurements of common-use items with a view to placing at least a portion of the procurement with small business. He noted a recent example where the New York Navy Purchasing Office had on hand a requisition for 500,000 pairs of shoes. The small-business specialist, working with the contracting officer, arranged for a set-aside of 100,000 pairs for negotiation exclusively with small business. Invitations were issued for bids on 400,000 pairs. Small concerns were then afforded an opportunity through negotiation to meet the low bid received through advertising. As a result, contracts for the manufacture of the remaining 100,000 pairs of shoes were awarded to two small firms in Massachusetts. It occurred to your committee that this was an extremely effective device for encouraging small-business participation in Navy procurement.

In presenting the Navy statistics on small-business participation in procurement, Commander Fox noted the decline in the percentage of dollars going to small business and said it was directly attributable to large dollar purchases of items unsuitable for performance by small business. He pointed out that purchases by the Navy Bureau of Aeronautics frequently dominate the Navy's buying. He noted also that roughly 92 percent of the Bureau of Aeronautics procurement dollar goes for airframes, engines, and electronic items which, according to Navy standards, are unsuitable for small-business production. In an analysis of the percentage of Bureau of Aeronautics dollars going to small business, Commander Fox pointed out that the figure has steadily increased thus far in 1952. He cited this as evidence of the effectiveness of the small-business program within the Bureau of Aeronautics. Referring to the over-all Navy small-business program, Commander Fox noted that 22.6 percent of all the Navy's prime contract procurement dollars have gone to small business thus far this year as compared with 18.1 percent for the same period last year. (See chart.)

DEPARTMENT OF THE NAVY

SMALL BUSINESS PARTICIPATION

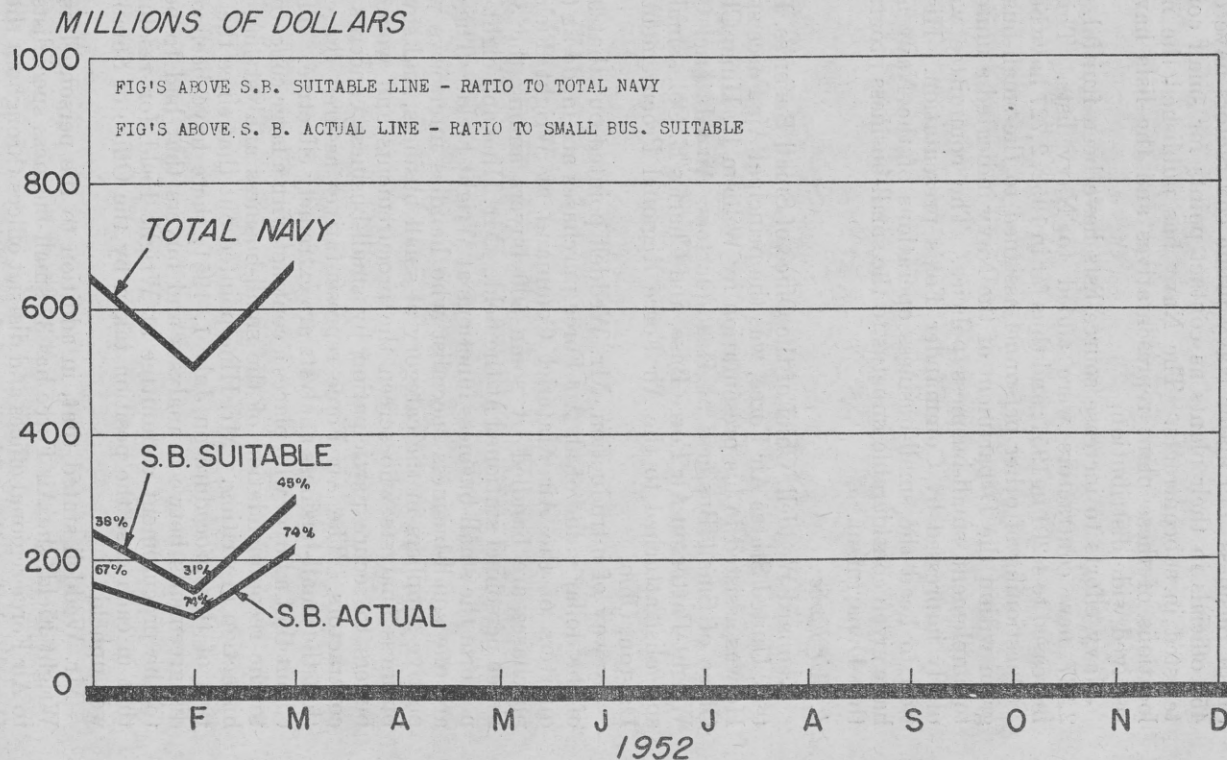
PERCENT OF DOLLARS TO SMALL BUSINESS (CUMULATIVE)



Treating separately the items suitable for performance by small business, the Navy representatives noted that the percentage of such items is consistently close to 39 percent of the total, and the dollars going to small business of those which are suitable remains consistently around 70 percent. In other words, according to the Navy statistics, small business is getting approximately 70 percent of the procurement dollar that the Navy spends for items which small business can produce. (See chart.)

PRIME CONTRACTS TO SMALL BUSINESS

PROCUREMENT ACTION DOLLARS SUITABLE FOR PERFORMANCE BY SMALL BUSINESS



Steps taken by the Navy to encourage subcontracting by its major prime contractors impressed your committee as being constructive and effective. As a result of a program initiated by the Navy Office of Small Business, 149 major Navy prime contractors have designated 451 officials in their plants as contact points for small concerns interested in subcontracts. The Navy has published the names and locations of these plant representatives and the lists have already received wide distribution.

Navy efforts to increase source lists have been fruitful. In 1950, 2,537 new contractors were added to Navy lists. This number increased to 4,261 in 1951; and thus far in 1952, 2,727 have been added.

Questioning of other personnel assigned to the small-business program within the Department of the Navy indicated a uniform desire to implement small-business policies. The committee was particularly impressed by Commander Fox's presentation. His nomination to head the small-business operations of the Navy appears to have given considerable impetus to the small-business program within that Department.

4. Air Force

Kennard Weddell, Chief of the Office of Small Business, Headquarters, United States Air Force, was the principal Air Force spokesman. He was assisted in his presentation by William H. Hine, Chief of the Office of Small Business at Headquarters, Air Matériel Command, Wright-Patterson Air Force Base, and Charles E. Cole, small-business specialist attached to the Air Force Regional Procurement Office at Dayton, Ohio.

By way of introduction, Mr. Weddell pointed out that 96 percent of the dollar value of all Air Force purchases are made at the Headquarters of the Air Matériel Command at Wright Field. These purchases are handled by some 500 buyers among the 30,000 Air Force personnel stationed at the field. Mr. Hine and eight assistants perform the small-business functions at Wright Field. The assistants are one small-business specialist who handles interviews with prospective suppliers in the category of small business, and seven small-business analysts who screen the procurements and work with the buyers to secure participation by small-business concerns as prime contractors. The Air Force representatives assured the committee that the small-business analysts are extremely effective. They pointed out that a buyer who places a contract with a large concern contrary to the recommendation of the small-business analyst has to justify his action in writing. Mr. Hine pointed out that since the inauguration of this procedure on July 1, 1951, there have been only three disagreements between analysts and buyers that had to be referred to the procurement committee at Wright Field for resolution, and that in each case the position taken by the Office of Small Business was upheld.

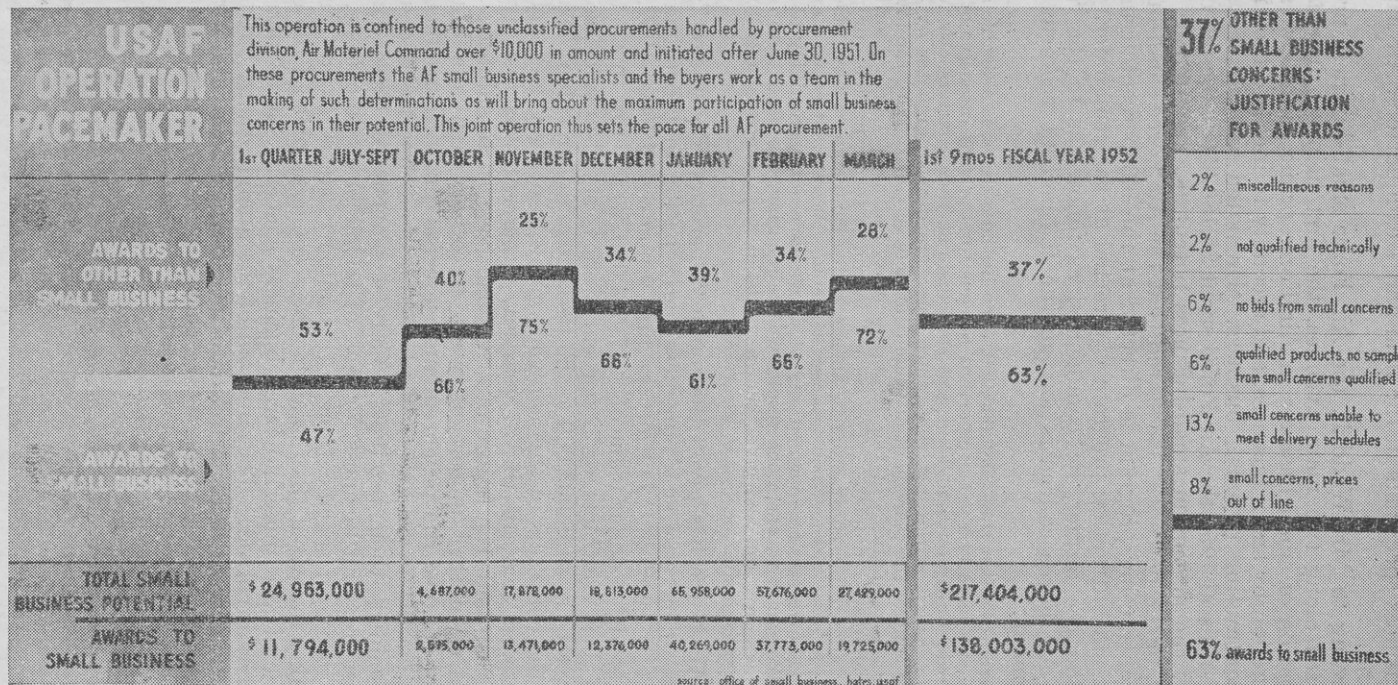
Mr. Weddell stated that, in addition to the personnel assigned to Wright Field, the Air Force has 37 small-business specialists assigned to Air Force regional offices and district offices throughout the country. He stated that the authority of these personnel within the Air Force is well defined and that direct communication is authorized between

small-business specialists in the field and Headquarters, Air Matériel Command.

According to Mr. Weddell, the Air Force small-business program is directed along two main avenues, the first being to increase the participation of small business in Air Force prime contracts capable of production by small business, and secondly to increase the amount of subcontracting to small business. He noted that in the first 8 months of fiscal 1952 the Air Force spent \$5,186,338,000, and, of that amount, the maximum small-business potential amounted to \$482,535,000, or 9.3 percent. He stated that the Air Force small-business prime-contracting program is directed at the 9.3 percent figure and that its subcontracting program is directed at the remainder. With respect to the former, he commented as follows as to the reasons for the Air Force concentration on the 9.3-percent segment of its procurement:

Aside from the fact that \$482,000,000, even in these times, is a sizable amount of money, we have two very important reasons for the very intensive operation being carried on by our small-business specialists at Headquarters, Air Matériel Command. First is the fact that, since these are direct purchases by the Air Force, we control the placement of these contracts subject only to the law of the land and the regulations of the Department of Defense. Our authority over those purchases is complete. The second reason is to strengthen our position with our large prime contractors in an aggressive campaign to have them take increasing interest in small-business participation. We cannot request and urge our prime contractors to do something which we have not been willing to do ourselves. We can show them the results we are securing, the benefits to our own procurement program, and give them a yardstick with which to measure their own accomplishment.

The Air Force has given the name "Operation Pacemaker" to its program to increase small-business participation in procurements of which it is capable. During the first 9 months of fiscal 1952, 1,738 contracts with a dollar value of \$217,503,000, were let in this category: 1,250 of these contracts, or 72 percent, went to small-business concerns to the extent of \$138,003,000, or 63 percent in dollar value. An analysis of the contracts in this category going to other than small business showed that, of the 37 percent, 6 percent was lost by small business through the failure of any small concern to submit a bid or proposal. Another 6 percent went to other than small-business concerns because the procurements were for qualified products, and at the time the award had to be placed no small concerns had successfully qualified their products. Only 4 percent of these contracts were lost to small business for lack of technical qualifications, facilities, or improper specifications. In summary, statistics on Operation Pacemaker indicated that small-business concerns met all the qualifications and also underbid large business concerns for 63 percent of the dollars involved. They met all of the qualifications, but bid too high on 8 percent. They failed to meet some qualification, regardless of price, on 29 percent. (See chart.)



The committee was impressed with the reporting system on its small-business program developed in the past year by the Air Force. One very interesting set of statistics growing out of Operation Pacemaker was that relating to the success achieved by small business in negotiated procurement as contrasted to advertised procurement. Previous statistics have indicated that small business fares best under advertised procurement. In Operation Pacemaker, 12 percent in dollar value of all procurements were handled through formal advertising and 88 percent in dollar value by negotiation. Of those contracts procured through formal advertising, small-business concerns received 61 percent dollarwise. Of those handled by negotiation, small-business concerns received 64 percent dollarwise. Small business not only received a greater percentage in negotiation; it received a greater percentage of a much greater volume of business.

There was another interesting aspect of this study from the standpoint of the committee. Air Force statistics indicated that, for each award made through advertising, an average of 98 concerns were solicited for bids. On the awards accomplished through negotiation there was an average of 28 requests for proposals on each purchase request. The latter figure indicated that the Air Force was now soliciting a greater number of sources on its negotiated procurements than was the case a year ago. One of the committee's objections expressed in its report last year was the tendency on the part of buyers to limit the number of sources contacted.³ Your committee felt that such action necessarily restricted the opportunity of small concerns to participate in military procurement. The statistics presented by the Air Force on its Operation Pacemaker tended to dispel the committee's former misgivings with respect to negotiated procurements.

With respect to the Air Force program to increase subcontracting on the 90.7 percent of Air Force contract dollars going to large business, Mr. Weddell stated that the Air Matériel Command directed letters to all prime contractors on August 28, 1951, requesting each to appoint an officer of the company as small-business liaison officer with Air Matériel Command. Over 1,000 such officials have thus far been appointed. An analysis of the subcontracting operations of four large concerns holding 660 contracts valued at \$2,867,219,000 showed that these companies were subcontracting 61 percent of the dollar value of the contracts. Of the amount subcontracted, 66 percent dollarwise was going to 1,776 large business concerns, and the remaining 34 percent was going to 8,988 small-business concerns as subcontractors and suppliers. No figures were available below the first tier of subcontractors, but the statistics showed that the four concerns surveyed were using 10,764 other business concerns, 83 percent of these being small concerns.

Glen McDaniel, president of the Radio-Television Manufacturers Association, advised the committee that he served as secretary to an Air Force Small Business Survey Committee which was appointed by the Under Secretary of the Air Force in July 1951. The members of the committee, none of them connected with the Air Force, were asked by the Under Secretary to make a survey of the Air Force

³ An analysis of procurement actions handled by the Air Force Ground Equipment Unit, Organizational Branch, Procurement Division, at Wright Field for March 1951 showed that 71 of 72 such actions were completed through negotiation. Of the 71 awards by negotiation: 1 source was utilized in 53 awards; 2 sources were utilized in 5 awards; 3 sources were used in 1 award; 5 sources were used in 2 awards, and more than 10 sources were used in 10 awards. In the 1 award by competitive bidding 287 invitations were sent out (S. Rept 469, 82d Cong., 1st sess., p. 24).

small-business program and to give "an impartial evaluation of its merits or deficiencies." The committee conducted its survey in the fall of 1951 and submitted a report in January 1952 in which it set forth 34 recommendations for improvement in the Air Force small-business program. Your committee was pleased to receive a report from Under Secretary of the Air Force R. L. Gilpatric after conclusion of the committee's hearings in which he outlined the steps taken by the Air Force to implement the recommendations of the Air Force Small Business Survey Committee. Although the Air Force did not adopt all of the committee's recommendations, those that were adopted indicated an earnest desire on the part of the Air Force to increase small-business participation in military procurement.⁴

TESTIMONY OF MAJOR PRIME CONTRACTORS

Recognizing the role of subcontracting in the military procurement scheme, your committee questioned representatives of some of the country's largest producers of military items. The committee was interested not only in the amount of subcontracting being done by these concerns with small firms but also wanted the suggestions and recommendations of these spokesmen which might prove helpful to small concerns seeking subcontracts.

Neil McCormick, material director of the Boeing Airplane Co., Wichita division, Wichita, Kans., stated that his company was producing the B-47 jet bomber on Air Force contracts having an approximate total value of \$1,405,219,411. He described Boeing's procurement policy in the following words:

The Boeing Airplane Co.'s procurement policy, in essence, calls for the procurement of materials of the right quality, in the right quantity, at the right time, at the right price, and from the right source. Quality is defined by the pertinent specifications; the other factors are matters of judgment and decision. In the buyer's constant search for the most advantageous purchase, these four prerogatives must be reserved for him as a basis of good judgment and in making accurate decisions.

On the basis of this established procurement policy, it is the buyer's responsibility to channel Air Force prime-contract dollars into small business to the best of his ability.

On operations to date on its Air Force contracts, Mr. McCormick stated that Boeing had subcontracted to a total of 1,412 sources. Of this number, 983, or 70.6 percent, were small concerns who received 25.9 percent of the subcontract dollars. An analysis of the subcontracting activities of Boeing's 12 largest subcontractors showed that they in turn subcontracted to 3,704 sources, of which 2,924 were small concerns. In summary, he stated that 79 percent of Boeing's total sources were small business located in 28 States, and that 61 percent of Boeing's subcontract dollar went to small business.

In answer to questioning Mr. McCormick recommended that small concerns wanting to do subcontract work prepare a complete brochure on their facilities and circulate it widely. He emphasized the importance of small concerns keeping close contact with large contractors.

Vincent deP. Goubeau, vice president in charge of materials, RCA Victor division, Radio Corp. of America, stated that his company

⁴ For recommendations of Air Force Small Business Survey Committee and report by Air Force on implementation of recommendations, see hearings, pp. 357-361.

spends about half of its annual sales dollar for materials and components purchased from outside organizations. He said that the proportion purchased is fractionally less in regard to equipment for the Armed Services because of the large amount of engineering development involved, but that the 50 percent figure remains relatively stable in peace and war. RCA Victor, the manufacturing division for the Radio Corp. of America, has roughly 5,000 suppliers located in 42 States. About 75 percent of these are small-business concerns. Commenting on the size of RCA suppliers, Mr. Goubeau said that about half of the small concerns doing subcontract work for RCA employ less than 100 people.

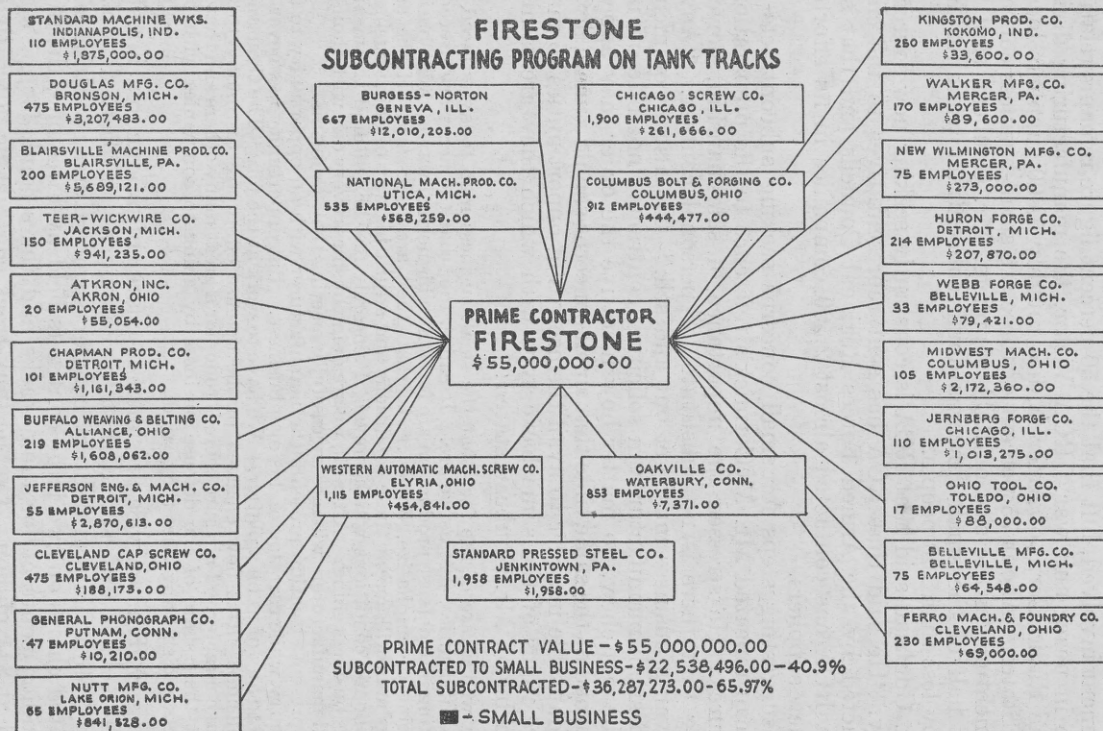
Mr. Goubeau said that RCA is constantly seeking new sources of supply. He said that RCA has sent representatives to the clinics conducted by the Armed Forces Regional Councils and that since Korea RCA has contacted almost 2,500 companies in its efforts to find new suppliers.

In suggesting steps for small concerns seeking subcontracts Mr. Goubeau repeated Mr. McCormick's reference to the preparation of brochures. He stressed the importance of salesmanship, however, stating that there is no substitute for personal contact. "Anyone who wants business must get out and sell." He also recommended that a small manufacturer in soliciting contracts "not bite off more than he can chew, no matter how lucrative the order may appear." He warned at the same time that small concerns should remain flexible and adaptable in order to avail themselves of opportunities to manufacture items of the same basic type with which they are familiar. In conclusion Mr. Goubeau stated:

I am well aware of the fact that the small-business man today is faced with unusual difficulties, just as we are. I realize, too, that the necessary procedures for getting into defense production are foreign to his normal way of doing business. The point to emphasize, however, is that they are necessary. If the small-business man will accept these conditions and adjust his way of doing business to the economic conditions which prevail, I sincerely feel he will find the means to keep his business going. After all, we are doing business every day with thousands of small manufacturers who are successfully meeting their problems.

The present situation presents the manufacturer with an opportunity to serve his country while carrying on his own business. But opportunity has never been handed to any of us on a platter. We have to work at the job. The thousands of small-business firms now engaged in the defense effort are testimony to their essential character. I am sure there is room for a great many others and that they can get their share of the defense business by going to companies with prime contracts and showing what they can do.

James E. Trainer, vice president in charge of production, Firestone Tire & Rubber Co., stated that his company has received approximately \$143 million in military contracts since Korea. Mr. Trainer presented charts on two large contracts held by Firestone, the first a \$55 million contract for tank tracks and the second, for gas masks valued at \$11 million. On the tank-track contract he noted that 66 percent of the contract had been subcontracted with nearly 70 percent of this amount going to small concerns located in six States. (See chart.) On the gas-mask contract, Firestone has subcontracted 52 percent dollarwise with about half of that amount going to small concerns in 11 States. Mr. Trainer estimated that 80 percent of the work subcontracted by Firestone on these two contracts ultimately went to small concerns in lower tiers of subcontractors.



In commenting on the advantages of subcontracting both to the prime contractor and to the subs, Mr. Trainer said:

An important factor bearing on our over-all subcontracting picture is the fact that procedure of this kind enables us to make use of manpower and facilities in their present locations. It enables small concerns within the radius of our operations to continue in production at times when their civilian output may be reduced. It lets people work within the radius of their own homes and under their own bosses, and prevents the movement of manpower, families, and the transportation problems involved in concentrating production in large industrial centers. This helps to alleviate all of the concurrent problems associated with the migration of labor and the movement of families into new areas.

We feel that our contribution to the picture is one of supplying management know-how, technical help, financial stability and the use of a highly trained defense products production organization which has now acquired very considerable skill in the placing and execution of defense product requirements of all kinds.

CONCLUSIONS AND RECOMMENDATIONS

The small-business share of the military-procurement dollar has decreased steadily since Korea. Your committee cannot but deplore this unwholesome circumstance. The explanations of the military with regard to increased purchases of heavy items not suitable for manufacture by small business do not constitute a complete answer. In World War II small business obtained as high as 34.5 percent of the dollar value of military prime contracts.

Small business concerns handle nearly half of all the manufacturing volume in the United States. They employ 55 percent of all manufacturing labor and comprise 98 percent of all the manufacturing establishments in the country. A segment of the economy as substantial as this should certainly be capable of producing more than one-fifth of the dollar value of military prime contracts.

The reason for the lag in small-business participation in military procurement does not appear to lie with the personnel administering the program. True, there are areas in which the programs of the military departments should be improved. But by and large, the people responsible for the implementation of the small-business policies enunciated by Congress and by the Department of Defense appear to have a sincere desire to expand the participation of small business in defense procurement. In their testimony before your committee they demonstrated in most instances a genuine small-business outlook and a practical regard for the problems of small business. In this respect the military representatives made a more favorable impression on the committee than did some of the Department of Defense spokesmen who appeared at the hearings last year.

The basic difficulty seems to lie in the lack of real authority at the top levels in the small-business offices. This lack of authority is evidenced in the failure of the departments to coordinate their programs. It is evidenced in the delay of the Departments of the Air Force and Army to institute the use of "set asides" for the benefit of small business. It is evidenced in the failure of the Army and Navy to institute a more effective follow-up on "tagged procurements" such as that employed by the Air Force. The lack of coordination between the military departments is evidenced most seriously in the failure of the Army and the Navy to utilize the joint determination procedure with the Small Defense Plants Administration for the earmarking of defense contracts to small business. Authority to enter into these

joint determinations was contained in a Munitions Board announcement of March 27, 1952. In the opinion of your committee, the failure of the Army and Navy to implement the Munitions Board policy relative to joint determination is inexcusable and amounts to a flouting of Congressional intent as embodied in section 714 of the Defense Production Act.

In the judgment of your committee such situations seriously retard the proper development of the small-business programs within the Department of Defense. They must be ended. There must be closer coordination between the military departments. To this end your committee recommends that the heads of the offices of small business in the military departments and in the Munitions Board be placed in more authoritative positions. The head of the office of small business in the Munitions Board should be designated a Vice Chairman of the Munitions Board, and the heads of the comparable offices in the Army, Navy, and Air Force should be raised to corresponding rank. It is the feeling of your committee that such action would eliminate much of the present delay in the coordination of small-business policies and procedures within the Department of Defense. It would eliminate the present necessity for going through extensive channels to correlate action within the Department of Defense.

Your committee is aware of the fact that the Air Force Small Business Survey Committee made a similar recommendation. In its report of January 30, 1952, that committee recommended that the Chief of the Office of Small Business in the Air Force be made a Deputy to the Under Secretary. In his report of June 2, 1952, Under Secretary of the Air Force Gilpatric rejected this recommendation and stated:

It is believed that the [small business] program would suffer if the Headquarters Small Business Office were removed from the direct contact with procurement operations which is provided by the present system.

Your committee cannot understand the reasoning behind this determination. Direct contact with procurement operations could be continued through the assignment of an assistant to the headquarters of the Procurement Director. This could be accomplished through a simple administrative rearrangement of personnel.

The resolution of present conflicts between the small-business programs of the separate military departments should not await the reassignment of the chiefs of the small-business offices. The three Departments should proceed immediately to coordinate their activities. There is no excuse for further delay in the utilization of joint determinations and "set asides."

The spokesmen for all three military departments laid considerable stress on their statistics based on the procurement of items capable of production by small business. They pointed to these data as being a truer index of the success of the small-business programs. Your committee recognizes the value of such statistics and recommends that the Army and Navy undertake programs similar to the Air Force's Operation Pacemaker. Your committee further recommends that the monthly report of the Munitions Board set forth these statistics.

The military departments must not, however, lose sight of the importance of increasing the participation of small business in all military prime contracts. They must keep to a minimum the number

of items excepted from small business participation. During the testimony of various military witnesses the committee noted that several questionable items such as medicine cabinets were listed as unsuitable for small-business production. The military must be continually on the alert to allow small business participation in any type procurement in which a small concern believes itself competent. In the absence of such precaution there is a continuing danger that small business will be arbitrarily excluded from participating in military procurement.

In this connection, the committee feels that the Air Force stress on expanding small business participation in "suitable" procurements has several advantages, but fears that the corollary of this policy, the consideration of the balance of its procurements as being suitable for small business only in a subcontract capacity, may prove a pitfall. The Air Force should not close its eyes to the possibility that small business may well be able to produce items now considered unsuitable.

Many small firms are now banded together in defense production pools. Firms which independently would not be capable of undertaking large military prime contracts are pooling their varied facilities to produce end items normally considered suitable only for large business. As your committee noted in its recent report entitled "Defense Production Pools":⁵

The committee feels that the military procurement activities should make every effort to consider pools as production units in many cases capable of handling contracts ordinarily thought to be outside the reach of smaller producers.

The military departments should encourage the wider use of pools as a means toward increasing small business participation in military procurement. Such a step would tend to expand the range of items suitable for production by small firms.

The hearings disclosed a number of specific areas of military procurement calling for attention. Chief among these was the practice of procuring items by commercial brand name "or equal." This procedure works a definite hardship on competent small concerns desiring to participate in such procurements. The manufacturer of the named item has a distinct advantage in that for all practical purposes his product is the specification and he need not be concerned with the rigid requirements regarding specifications. In addition, he knows his costs in most instances, while the computation of these costs in many cases represents a sizable expense to a competing bidder. The device becomes unduly harsh on small concerns when they are not afforded easy access to specifications or models of the specified item. Your committee feels that procurements processed in this manner must be held to a minimum. Where it is necessary to use the device, more than one brand name should be specified wherever possible. In accordance with Armed Services Procurement Regulations, the specification should be written around the job to be done by the item, and it should not be restricted to the product of one manufacturer unless absolutely necessary.

The cancellation of bids and proposals is a particularly costly and vexing practice. Once bids have been invited, they should not be canceled except for good and sufficient cause. In no case should a bid or proposal be canceled merely to avoid a controversy. An

⁵ S. Rept. 1597, 82d Cong., 2d sess., p. 2.

agency canceling a bid or proposal should be required to explain the reason for its action upon request of a bidder.

The operations and actions of technical evaluators should be scrutinized most closely. The routine processing of bids and their rejection on superficial grounds must not be condoned. The military must realize that the technical evaluator in many instances dictates the success or failure of a small concern in its attempt to obtain a military contract. In addition, his decision or recommendation, if ill-considered, may result in greatly increased costs to the Government. Such personnel must be fully qualified and possessed of sound judgment. They should not only be given the authority but should be required to deal directly with prospective contractors on any minor technical deficiencies noted during the processing of a bid. It would be well also for the military to stress small-business policies in the training afforded to technical evaluators.

In its report a year ago your committee criticized the military for not allowing sufficient time to contractors to prepare and submit bids. The military appears to have made a conscientious effort to correct this situation. The military departments should be alert, however, to opportunities to extend bid lead times wherever possible. The matter of bid lead time is of special importance to the small concern new to the ways of military procurement.

The committee recognizes the importance of subcontracting in the over-all military procurement pattern. It is true that for many firms, particularly small ones with highly specialized products, subcontracting represents the only accessible road to defense business. It is therefore important that the military departments give due consideration to subcontracting. The committee feels that the work done to date by the military departments in enlisting the cooperation of its prime contractors in the small business programs has been extremely worth while. Such programs should be expanded wherever possible.

The success of small concerns in obtaining subcontracts from the major military prime contractors is a tribute to their ability to produce competitively. The testimony of the representatives of the large primes indicated that the subcontract business that went to small concerns could be attributed only to the ability of small concerns to undersell and outproduce their larger competitors. It was clear from the testimony of the spokesmen for the large primes that they were not making any conscious effort to place subcontracts with small concerns as opposed to large. In placing their subcontracts as they did they were simply executing a realistic policy of getting the right item at the right price at the right time. The ability of small concerns to share in military subcontracts as they do under this test is evidence of their ability to hold their own.

Important as subcontracting may be to small concerns, the military departments must realize that in the last analysis, their power to direct subcontracts to small concerns is strictly limited. It is true that military prime contracts contain clauses wherein the contractor agrees to subcontract to the maximum extent possible. This proviso has little practical effect, however. A prime contractor who accepts the responsibility for delivering an end item to a military department must have a relatively free hand to decide how many and what subcontractors he will use to produce the item.

The small-business offices of the Department of Defense must therefore not lose sight of the fact that their first and foremost task is the placing of the maximum number of prime contracts with small business. This is the only area in which the military departments have any real authority and any real power to implement small-business policies.

In summary, your committee feels that the small-business programs of the Department of Defense have made important progress in certain areas during the past year. Small-business objectives enunciated by the Congress have been written into strong policy statements within the Department of Defense. These policy statements have been frequently reiterated and widely disseminated. The mechanism to implement the policies has been installed. The number of small-business specialists stationed in the various procurement offices has been increased. But the practical results have been disappointing. The work of the small-business specialists has not yet produced the expected results. The proof of the entire program lies in the percentage of prime contract dollars going to small business, and this figure has declined steadily since Korea. If the military departments are to reverse this trend they must intensify the top level direction of their small-business programs and must begin to coordinate their actions to increase small-business participation in military procurement.

Small concerns fill a vital role in our total economy. They are indispensable to the defense of the nation. They must not be allowed to disappear from the economy in this period of semimobilization. They must be kept vigorous and ready to assist in the event of a greater national emergency. One of the best available means to maintaining the vigor and resources of America's small businesses under present circumstances is to encourage their participation in military procurement. It is within the power of the military departments to decide whether they shall so participate. The military departments must realize the importance of that participation.

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The small business problem is not a new one. It has been with us since the beginning of the nation. It is the only one in which the government has a direct and continuing interest. It is the only one in which the government has a direct and continuing interest.

In summary, your committee believes that the small business problem is a complex one. It is a problem that has been with us since the beginning of the nation. It is the only one in which the government has a direct and continuing interest. It is the only one in which the government has a direct and continuing interest.

Small business is the backbone of our nation. It is the only one in which the government has a direct and continuing interest. It is the only one in which the government has a direct and continuing interest.